


AR42

Wallace-Murray  
Corporation  
Annual Report  
1971







Digitized by the Internet Archive  
in 2024 with funding from  
University of Alberta Library

[https://archive.org/details/Wall2345\\_1971](https://archive.org/details/Wall2345_1971)



Wallace-Murray  
Corporation  
Annual Report  
1971

**Financial Highlights**

	1971	1970
Net Sales .....	\$217,554,424	\$205,604,225
Net Income .....	6,829,761	6,009,419
Average Number of Common Shares Outstanding .....	2,862,264	2,871,319
Primary Earnings Per Common Share .....	\$1.76	\$1.47
Average Number of Shares Outstanding, Assuming Full Dilution ..	4,597,913	4,343,874
Diluted Earnings Per Share .....	\$1.46	\$1.30
Funds from Operations .....	15,125,298	13,494,650
Depreciation .....	7,467,205	7,046,188
Capital Expenditures .....	4,597,576	10,668,770
Working Capital .....	74,206,274	60,977,516
Long-Term Debt .....	65,028,610	58,940,143
Stockholders' Equity .....	85,046,983	81,850,242
Dividends Per Share of Common Stock .....	\$.60	\$.90

Diluted earnings per share assumes full conversion of \$1.70 Cumulative Convertible Preference Stock, the exercise of Common Stock warrants and conversion of the Convertible Subordinated Debentures which were issued in May, 1971.

On the cover:

Heavy-duty exhaust valve made out of new metal alloy developed by Wallace-Murray is heated to incandescence during testing process at TRW Inc.



# The roads to market

The final test of every business enterprise occurs in the market place. Though Wallace-Murray sells relatively few products directly to the consumer, we are no exception. We participate actively in the building industry. We are deeply involved in transportation, processing, manufacturing. All our planning activities, and our internal structure as well, are focused outward to the large, growing markets we serve.

But even more importantly, we also believe that the market place is where all meaningful business activity starts.

Marketing—the theme of this report—traditionally ends with the order. It begins with a search: the identification of a need, the definition of the means to satisfy it, and the determination to do so.

Thus, higher performance, low-emission engines are desirable, but they will require steel alloys with new, improved characteristics... Productivity and cost reduction are more than just desirable, they are essential if American industry is to compete successfully. But higher productivity, at less cost, requires better tools (facing page)... The abatement of air pollution is not only a need; it is a high national priority. But it cannot merely be legislated into being... A prosperous Europe, more populous than the United States and building or modernizing at a faster rate, has discovered central heating, and the means to afford it. But how can demand, conditioned by local custom and scattered across 13 sets of national boundaries, be effectively served?

These are needs, identified and defined. Against each of them, Wallace-Murray has measured its resources and made a commitment—by developing new products for existing markets, by positioning existing products in new markets, by matching new products with new markets.

At any given moment, a healthy, growing company will have a number of products on the road to market. We have chosen to describe six—because each has a particular history of its own, illustrative of a different concept or approach, and because they touch on all our major fields of activity, and therefore offer an insight into Wallace-Murray at work.

There is time and investment behind each of them—time for development, for testing assumptions and formulating strategy—investment to provide equipment, manpower, and consultive help. Nevertheless, it is highly possible that not all of them will succeed in the market place.

Most, we believe, will. They are presented, however, not as completed success stories, but as reports of events in progress—a look not only at what we are doing, but how and why.

The unique new Wallace-Murray EMERALD™ grinding wheel (right) incorporates the grinding industry's first precision grinding "alloyed abrasive", an alloy of vanadium with aluminum oxide. The result is improvement of production rates by 50 to 150 per cent, and more, the achievement of a new level of precision machining performance, and the broader range of use for new alloy steels because they can now be effectively machined.





**E.M. RALD**

PHILADELPHIA, PA. 19106

ALWAYS ORDER EASTERN YOUR PROTECTION

ALWAYS  
USE A  
COVER

FOLLOW ANSI  
SAFETY CODE  
B.1

TESTED  
25,000 PSI

MAX. RPM  
3000

7/8" X 1/2" X 11  
PART 1 V8



# A grinding wheel for cutting costs



At left, Wallace-Murray's Cleveland salesman Harry Schmid, fresh from Philadelphia sales conference, makes presentation to distributor salesmen in his territory. Specially-prepared material which he is using is part of an integrated information campaign timed to introduce the EMERALD wheel. In order to support advertising with editorial exposure and endorsement, it included special demonstration-conferences for the trade press.

At right, Simonds Abrasive Division management introduces EMERALD wheel at sales conference and explains how it should be used. Though designed to function on existing machines, it is a truly new product, composed of a new material with novel properties. To derive maximum usefulness, it should be pushed, in terms of operating speed, infeed and dressing, far beyond the limits expected from conventional abrasive wheels.



The headline above appeared, word for word, over a recent article in *Business Week* announcing the introduction of the new Simonds EMERALD™ abrasive wheel. Like good headlines should, it told the gist of the story: productivity—making more at lower cost—is an imperative for American industry, in some cases a life-or-death imperative. The EMERALD wheel is addressed directly to this need.

The new wheel uses less power, lasts longer, grinds faster and to better finish. It permits deeper cuts, requires less frequent dressing, and therefore increases output per man-hour and per machine-hour, a vital factor in an industry where

labor and overhead can run to more than 30 times the cost of the wheel itself. It works well on very hard steel and metals—surgical knives, for instance—which previously required special tools. In every respect, the EMERALD wheel is a superior product. Still, it has to be sold.

The ground work was laid in 1967 with a concept: that the techniques of metallurgical alloying, of creating new substances with desired qualities by fusing selected materials, could be applied to the design of abrasives. At the Arvida, Quebec, furnaces of our Simonds Abrasive Division we began pouring melts combining vanadium with aluminum

oxide, the basic material of grinding wheels. When the right formula was found, it was subjected to two years of field testing, at various speeds, against different metals, in different operations. Reports ranged from “you have a good wheel” to “fantastic”. Statistically, 91.89 per cent of the tests gave production improvements of 50 per cent or more, 61 per cent of 100 per cent or more, and 41 per cent of 150 per cent or more. The “fantastic” was for a test in which the EMERALD wheel outperformed competition by 1,900 per cent.

Having traveled that far on the road to market, care was taken to see that the





Below, Schmid and Bob Temko, representing Bingham and Co., Simonds Abrasive's Cleveland distributor, who will distribute the EMERALD wheel, demonstrate its use to operator at the Melin Tool Company. Principal users will be the machine tool, automotive and transportation equipment industries, as well as makers of gears, bearings, dies and other metal parts—all industries facing foreign competition, and in urgent need of reducing costs.



EMERALD wheel complete the journey properly. In October, 1971, a three-day meeting was held in Philadelphia (above, right) at which the men who developed and tested the wheel met those who would sell it. A marketing strategy, including coordinated packaging, advertising, dealer stocking plans, sales materials and sophisticated promotional techniques, had been prepared. Regional managers even attended the first of a series of press briefings.

Trial shipment of the EMERALD wheel began in November. By year-end trial orders were flooding the Division's marketing office in Philadelphia.

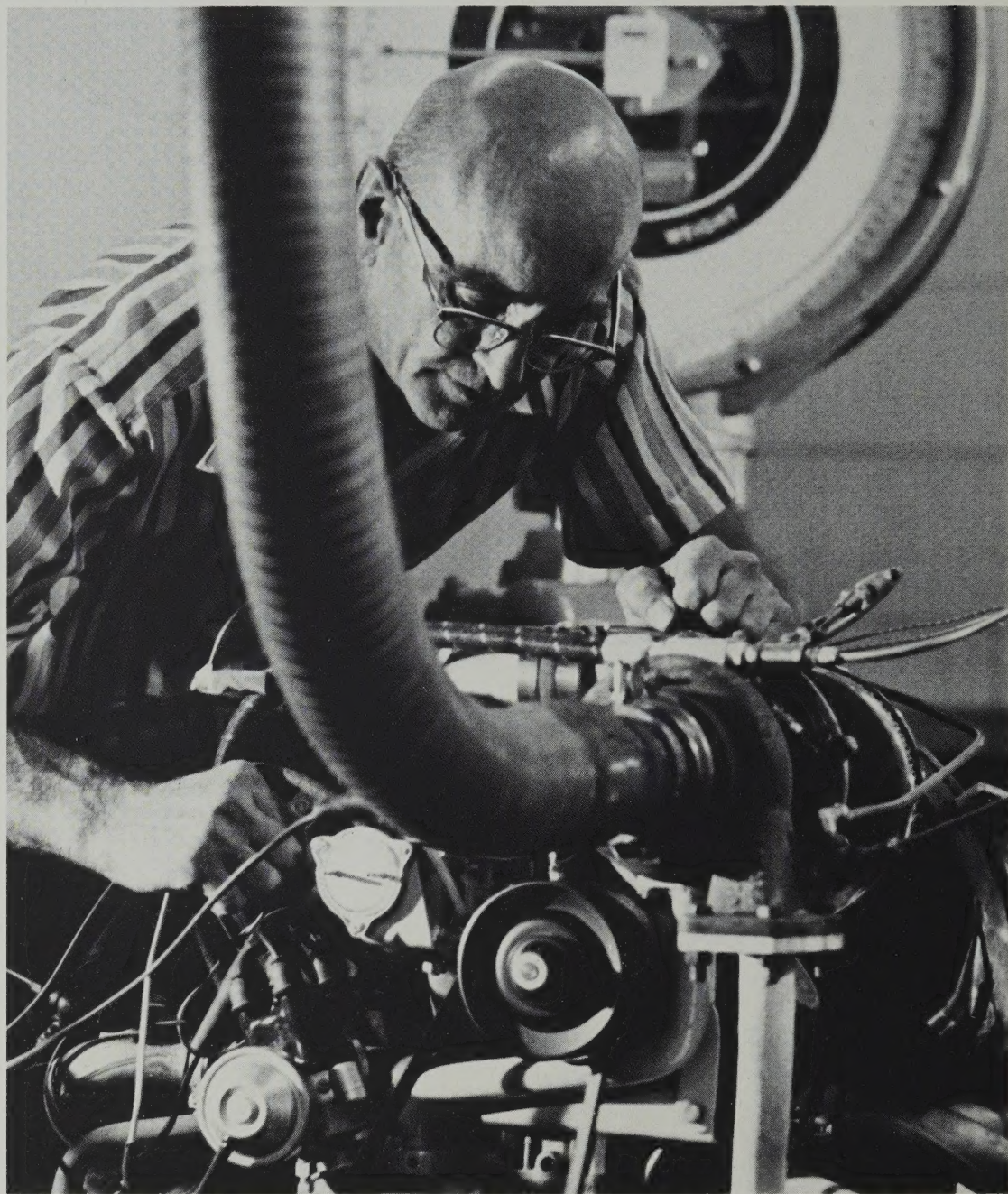




# Emission control: a market in search of a product

On facing page, a Chevrolet Vega engine is measured on test block for horsepower, fuel consumption and exhaust emissions. These tests are carried out on both naturally aspirated and turbocharged engines to provide direct comparisons. Gauges show presence of carbon monoxide and hydrocarbons, two of the pollutants which result in largest measure from incomplete combustion, and are subject to proposed regulations. (The other two are nitrogen oxides and particulate matter.)

Test on VW engines such as the one shown at right indicate that the simple addition of a turbocharger to a standard engine reduced hydrocarbon emission by 14 per cent, carbon monoxide by 13 per cent, and nitrogen oxides by 8 per cent—a major improvement. A turbocharger does three things: it promotes after-burning of the residual pollutants in exhaust gas; it utilizes a portion of the energy left in exhaust gas to compress air for the intake stroke of the engine which, in turn, raises thermal efficiency and permits the development of more power from the same size engine. And, it functions well on low-compression engines which can operate on low-lead, low-octane fuel.



Identifying a need does not, by itself, create a market. But it does present opportunity which can hold out reward. An example is the control of automobile exhaust pollution—an effort in which Wallace-Murray is actively engaged.

The problem is complex, not only legally and politically, but scientifically as well. Present regulations contemplate four kinds of pollutants; there are in fact hundreds of components in exhaust gases, some of whose effects on living tissue are still unknown. Rate and magnitude of emissions depend on the engine and the fuel used, and vary according to the type of driving, and even the

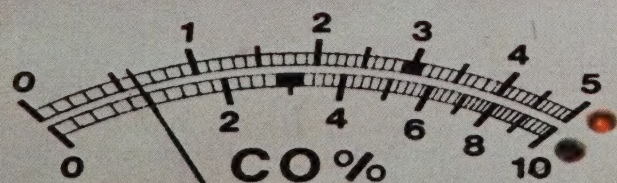
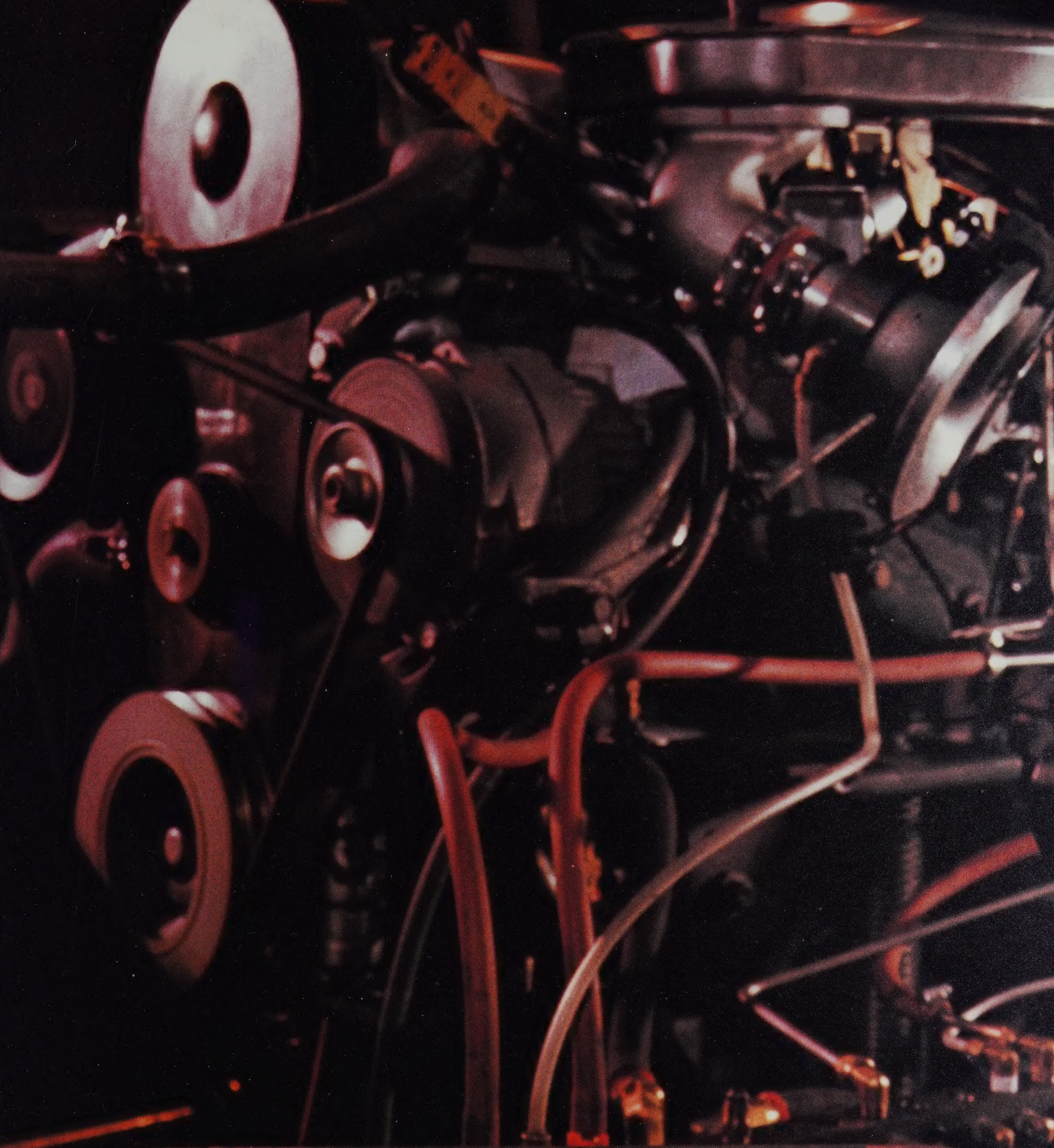
moisture and temperature of the air.

Until now, abatement efforts have centered on the most efficient operation of existing engines, but auto engineers say that all practical benefits from this source have been gained. New devices—catalytic mufflers, thermal reactors—have been proposed. Revolutionary new engines are being licensed, though there has been a reluctance to make commitments to unproved systems which add to a car's cost, reduce its power, and, more vexing, increase running costs.

There is, however, a proven device which can help: a turbocharger. Our Schwitzer Division and its licensees have

made more than 1,000,000 for diesel truck engines and off-highway equipment. These engines have logged hundreds of millions of miles under all conditions. They have delivered better performance with lower emissions. Tests are well underway on standard engines and the revolutionary German Wankel engine, in our laboratories, with engine manufacturers and with the Environmental Protection Agency of the Federal Government. They show promise. Given the uncertainty surrounding the entire issue, we make no predictions. But we are very optimistic—and for what we believe are sound, technological reasons.







# Power and the small car



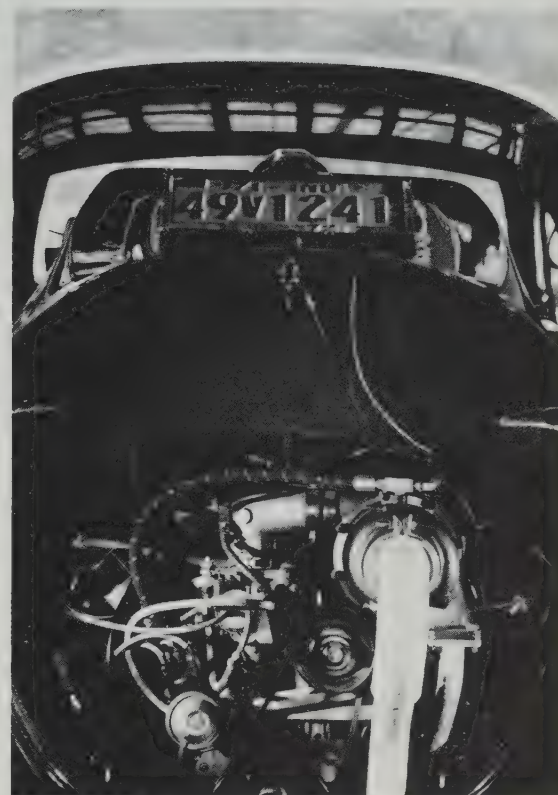
One fact about turbochargers is indisputable. As pointed out, they boost the power output of engines, easily and efficiently. This has long been appreciated by practical-minded users of heavy-duty vehicles. But a turbocharger is equally effective on passenger cars—in fact, the smaller the engine the more dramatic the improvement. This has assumed marketing implications which cannot escape anyone who, while driving a small car, has tried to pass a large truck. A turbocharger will make it easier and safer. During 1970, Schwitzer completed a survey designed to find the best point of entry into this very large and

potentially receptive market. The results suggested one specific automobile—the Volkswagen—and one particular channel of distribution—performance dealers. There are now some 4 million VWs on American highways; turbocharging only one half of one per cent of them represents a market of some \$8 million a year. As for outlets, there are 1,600 performance dealers in Florida, Arizona and Texas (the first test area selected). California alone has another 2,000. Schwitzer's product is a bolt-on turbocharger kit (above, right) which can be installed quickly, and *doubles* the engine's power.

Where a need exists, so usually does

competition. There are available dozens of performance accessories for small cars: camshafts, reworked heads, fuel injection. The turbocharger is the simplest, most effective, most thoroughly proven and, as previously documented, has the added advantage of reducing emissions. First units of the kit were shipped in November, 1971. The same kind of in-depth promotional package described earlier for the EMERALD™ wheel is being prepared now to help capture the attention and orders of selected performance dealers around the country. The market will be measured before final production decisions are made.





Above, turbocharger and its white-painted exhaust outlet are installed on standard VW engine. Turbocharger kits, for the VW 1500 and 1600 engines as well as for VW-powered dune buggies, are easy to install. The job should take 8 hours—provide a horsepower increase of 100 per cent and 70 per cent in torque, and a cleaner exhaust.

At left, starting from bottom, sequence camera shows a standard VW, unmodified in any respect except for the addition of a turbocharger, easily overtaking a truck at super highway speeds.

At far left, turbocharger deck adds distinctive accent to familiar beetle shape, and a solid note—to its engine sound. In marketing kit, Schwitzer stresses its reputation as the worldwide leader in the production of turbochargers.



# Technology goes to market, through a fiery furnace

TRW Valve Division Materials Manager Ed Vitcha (standing at blackboard) holds shirtsleeve conference with Simonds Steel's Al Nehrenberg, Gene Rundell and Dave Kincaid (seated). It was one of many which punctuated the four-year cooperative program to develop an alloy for exhaust valves, some of which are shown on desk, and (facing page) cooling after heat treatment.



Marketing takes on a special challenge when the competition consists of heat (1,400°F. and up), a corrosive atmosphere, and a violent jamming and jolting 50 times per second. The need was clear enough: performance of an internal combustion engine is limited by the ability of exhaust valves to operate under higher temperatures and pressures. There are good valve alloy steels now on the market. However, none are suitable for the more severe environments in heavy-duty engines due to a deficiency in properties or because of excessive cost. But Simonds Steel, through prior experience with heat-resistant alloys, believed there was

room for improvement. It also has had long fruitful experience in technological marketing—many of its magnetic and controlled-expansion alloys were developed collaboratively to meet specific characteristics. The prospect of a new valve alloy was therefore discussed, in 1964, with a major manufacturer, TRW Inc., who expressed “interest” and outlined property improvements which should be met. There was much work to be done initially to evolve a suitable chemical composition. Two hundred different chemical analyses were made experimentally and evaluated. A basic iron-nickel-chromium-manganese combination was

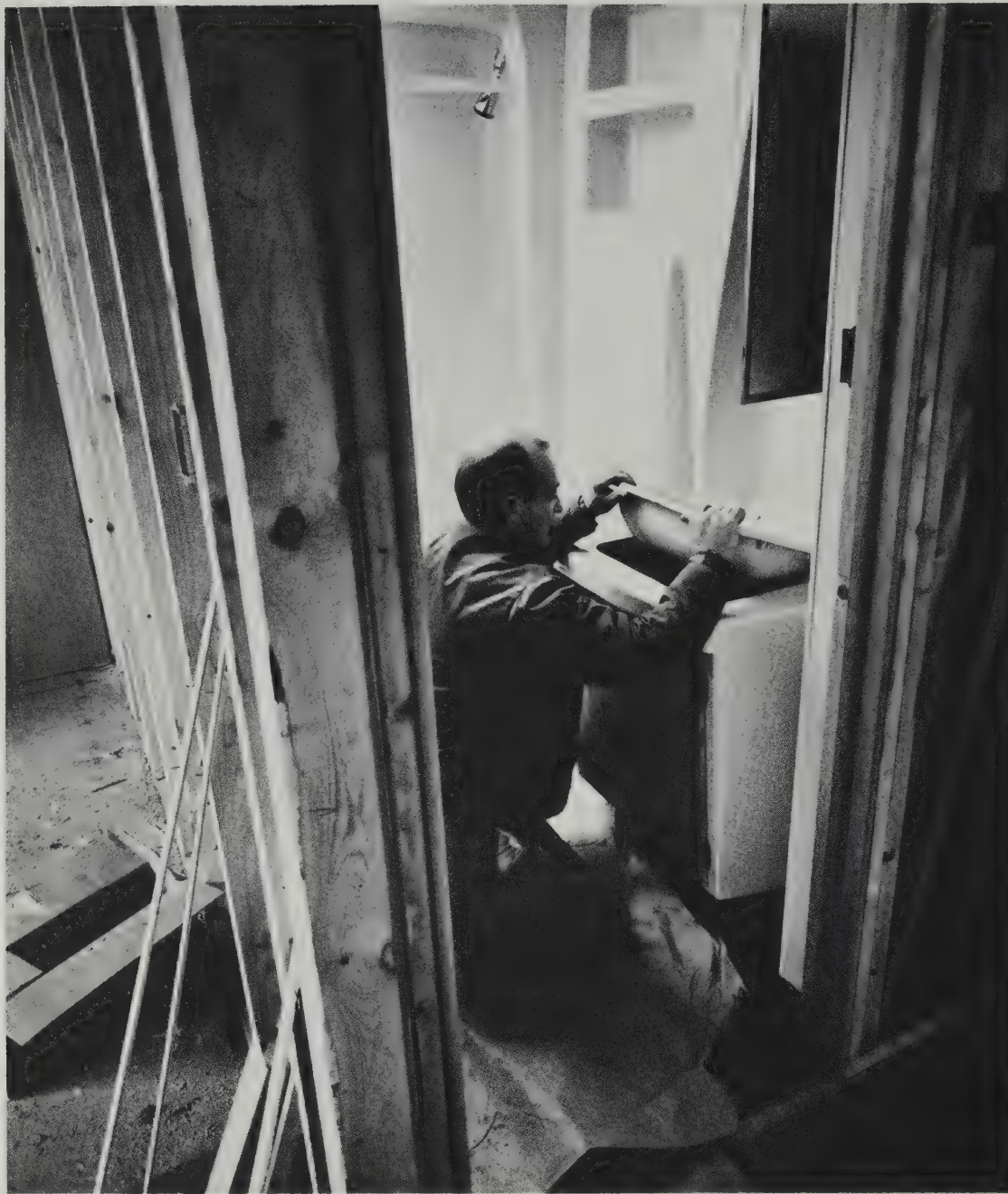
found to have the desired corrosion resistance while retaining the required strength and fatigue properties at high temperatures. In 1968, Simonds started joint development work on this alloy with TRW. Where do we stand now? We have a better product—and a patent on it. Lab tests have been passed. We are ready for immediate field tests on the heavy-duty gasoline and diesel engines. Interest has been generated in Germany, Japan, Sweden and other auto-making countries. And, down the road, where heat and corrosion have been limiting factors, are other applications, such as turbines and other power-generating sources.







# Concept III: the progress of a product



New Concept III installation which, when completed, will look like the prototype shown below, is located at a new apartment complex in Sykesville, Maryland. Significant feature includes ease of installation—the complete modular bathroom is assembled directly into its allotted, studded-off space with easy to hook plumbing tree shrouded by the fiberglass walls of the modular units.

This is a continued—and continuing story. Last year, Concept III, Eljer's fiberglass reinforced plastic modular bathroom system was introduced at the National Association of Home Builders Show in Houston. To architect and builder, it offers great flexibility and ease of installation: to consumers, attractiveness and ease of maintenance. To Eljer it gives an opportunity to supply a greater part of the total house (two walls as well as fixtures) while still being able to utilize traditional china and steel lavatory bowl and basin.

It seldom happens that new products capture a market overnight and estab-

lish a position for themselves. During the past year, however, reinforced plastic bathtubs have taken almost a fifth of the total market, and will increase this share as continued use validates their premise. From all that has happened, it appears that our decision to enter this market has been justified.

Meanwhile, Eljer also continues as one of the leaders in marketing traditional china, cast iron, and steel plumbingware as well as brass and drainage fittings for all products.

One of our main marketing thrusts during the past year has been toward high-volume contracts, particularly those







which offer important visibility. One example: the two hotels erected by United States Steel at the new Walt Disney World in Orlando, Florida: a four year marketing story that ended with the specification of Eljer plumbingware throughout. Another: a 10 year contract worth more than \$3,000,000 the first year under which Eljer will supply Universal-Rundle Corporation (which sells Sears, Roebuck Company) with the majority of its cast-iron bathtub, sink and lavatory requirements.

Eljer will continue to play its traditional role in the marketplace while innovating to meet tomorrow's needs.



# How to say "central heating" in English, French, German, Dutch, Danish and Norwegian



Europe is historic, exciting, modern, busy and badly-heated. Within the 13 nations which comprise the two principal trading areas of Western Europe—the common Market and the European Free Trade Association—there are 95 million housing units. Two thirds of them have no central heating. The current rate of housing starts is a little higher than 2 million a year—approximately the same as that for the United States. In addition, remodeling is going on at the rate of approximately 1 million units a year.

There are also vast numbers of industrial and institutional buildings—offices, plants, hotels, schools, hospitals and

churches which in the aggregate, are equal to new housing. Potentially, this represents a tremendous new market—but only for the right product. A good working definition of “right product” in this instance is a system which can be used to heat a cathedral, six centuries old and drafty, and do it in a manner that will not intrude upon its architectural magnificence.

Wallace-Murray has such a product: the Metalbestos® stainless steel chimney. Introduced in the United States and Canada in 1968, it has found immediate acceptance with architects, builders and home owners. Sales in Europe have

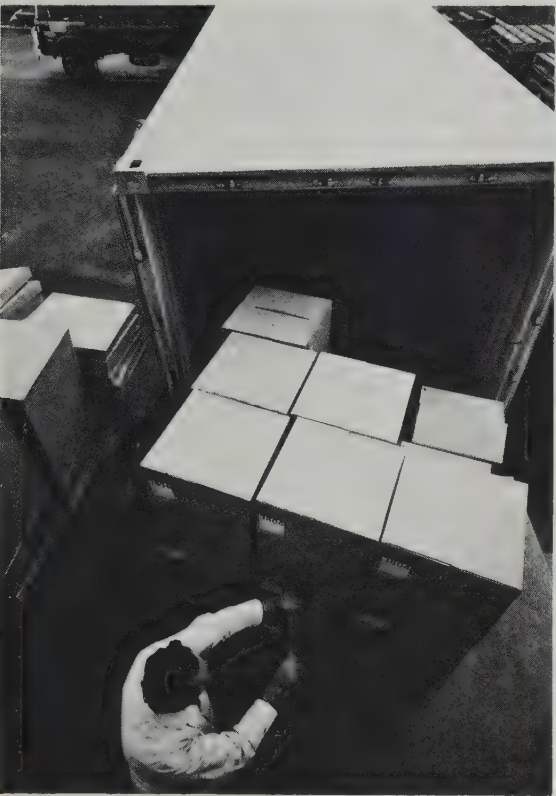
increased on an average of 100 per cent per year since the introduction and are projected to do as well in the coming year. The Metalbestos chimney is designed around a one-inch insulated double wall which is equivalent to 17 inches of masonry. It can be installed quickly and inexpensively, as a versatile, free-standing unit. It can heat a crofter's cottage, a hangar for Boeing 747 jets, or a cathedral.

But the best product must still come to market. In this respect, Wallace-Murray is in a position to reap the benefits of foresight. In 1969, we built a plant in Barnstaple, Great Britain, to produce





Exeter Cathedral was built in 932 A.D., reconstructed in 1309 and has since been under constant renovation. Latest addition—central heating—with an effective Metalbestos® venting installation (left) which is hidden from public view at the rear of the Church.



Truck loaded at Selkirk-Metalbestos plant in Barnstaple, Great Britain, will be driven onto channel steamer at Felixstowe, and be making delivery at Amersfoort, Holland, on the following afternoon.







Metalbestos® products. The site was chosen because of its supply of reliable labor and proximity to raw material. Product shipped at the close of one day can be on the Continent, on its way to a building site in Holland or Germany on the next day. Foresight also dictated that the plant be designed for easy expansion. The first two phases of expansion have been completed, and the third, which will more than double capacity, is underway—because the Metalbestos chimney, introduced into Europe in late 1969, has met or exceeded all expectations.

Marketing in Europe is not unlike what it would be in the United States if

every sales region had its own language, traditions, and preferred way of doing things. Consider that Finland is the size of Ohio. From the start, we envisaged a multi-national sales and distribution organization: resident managers, agents, distributors, advertising, technical literature and promotion, all in the language and spirit of its particular market. This organization is now operational in the five major European markets, and is being expanded to cover the entire Continent. There are competitors, of course, but we have an edge. We offer the broadest range of sizes and fittings for all areas of the construction industry. And,

Metalbestos is the only product in its class to hold a license from the British Standards Institute.

During the past year, Metalbestos products have found application in both new buildings and remodeling—a 750-unit housing project in Swansea, in South Wales, office building in Paris, the London town house of one of the world's leading prima ballerinas, a free-standing industrial chimney 105 feet high in Bremen, the first of its kind anywhere.

Forecasts? Estimating conservatively, demand rounds out to \$120,000,000 a year, for which Wallace-Murray has the right product, at the right time and place.





(Overleaf) Photograph taken against Paris sky shows familiar chimney pots which, to the delight of tourists and traditionalists, will remain. In background is new tower—clean, handsome, efficient, and symbolic of the dramatic change taking place in building throughout Europe. ►

At left, a front and rear view of row hotels which are one of the familiar London landmarks. Most of them, constructed before World War I and often converted from private dwellings, had no provision for heating other than the traditional shilling-slot and gas grate. New regulations now mandate minimum heating standards in all living and working areas. Often this means exterior venting of new furnaces.

Above, triple stainless steel chimney was used in converting the heating system of a multi-story building in Munich. Below at right, brand-new machine tool plant near Stuttgart has a 4 million b.t.u. boiler vented by an external Selkirk-Metalbestos chimney.

At right, Selkirk-Metalbestos was popular exhibitor at 1971 Batimat International Salon in Paris, the largest building industry trade exposition in Europe.









## 1971 Review of Operations

We are pleased to report that sales, net income and earnings per share were substantially ahead of 1970 levels.

Primary earnings per common share for 1971 were \$1.76 as compared with \$1.47 for 1970. On a fully diluted basis, assuming full conversion of the \$1.70 Cumulative Convertible Preference Stock, conversion of Convertible Subordinated Debentures and the exercise of Common Stock Warrants, earnings for the year were \$1.46 per share versus \$1.30 in the previous year.

Net sales were \$217,554,424 as compared to \$205,604,225 in 1970—an increase of 6 per cent. Net income amounted to \$6,829,761 up nearly 14 per cent from \$6,009,419 in 1970.

This healthy improvement in the Corporation's sales and earnings is attributable largely to profit improvement in our building products group. The rate of housing starts moved up aggressively throughout the year and we began to experience accelerating benefits from that as the year progressed. In addition, during the fourth quarter, improvement was also being experienced in several of the divisions of our cutting tool and power components businesses, and start-up costs at the new Rolla, Missouri plant were finally eliminated.

In view of the extensive capital expenditure program carried on through 1970 the Corporation's plant facilities are in excellent shape to meet this new demand, and capital expenditures for plant expansion and equipment in 1971 amounted to slightly below \$5 million which is lower than depreciation for the first time since 1966.

In 1971 the Corporation took a new look at all its businesses from a multi-national stand-point. We have reported on the preceding pages the expansion of our Metalbestos® chimney into the European market and the doubling of our plant in Barnstaple, England. During the year we also attained a foothold in the European cutting tool market with the acquisition of a 50 per cent interest in a small, relatively new grinding wheel company in Italy. We hope to diversify and broaden that operation which already reports tremendous enthusiasm for our new EMERALD™ grinding wheel on the Continent. In addition, we are expanding our jointly-owned plant in Sao Paulo, Brazil which until recently merely serviced and rebuilt turbochargers shipped from the U. S. In 1972 it will increase its manufacturing of new turbochargers in Brazil to meet a rapidly growing demand in one of the most stable and fast-growing economies in Latin America.

In addition to the above, the Corporation has continued to actively seek out new businesses that will either complement

our present operations or take us into new areas of growth. In January, 1972 the Corporation acquired Rittiner Industrial Enameling Inc., a manufacturer of architectural enameled porcelain steel and other building products. At this writing, Wallace-Murray has signed a letter of intent with another company in the building products field.

The Corporation did not experience any serious labor stoppages during 1971. In fact, several significant 3 year contracts were negotiated which will permit higher productivity and more efficient operations in key divisions.

The Corporation continued its active implementation of programs to maintain the presently lean employment level, to reduce general administrative costs, and where possible, to reduce inventories. These activities will be increasingly significant in 1972 as the Company attempts to stay abreast of inflation levels. In addition, a program to find new raw materials and to develop better procurement procedures is underway throughout the Corporation to hold material costs at acceptable levels.

During the year Arthur J. Andersen was elected a Vice President of the Corporation. He will continue as Secretary and coordinator of the corporate acquisition program. Fred W. Peters was elected Treasurer of the Corporation. This position was formerly held by the Vice President-Finance to whom he will continue to report.

In March, the Board of Directors accepted with regret the resignation of J. B. Balmer and Sylvester Muldowny, who reached the mandatory retirement age. In September, the Board also accepted the resignation of Bruce Williams whose firm, Jennison Associates, has been retained to manage a portion of the Corporation's pension funds.

In December, the Board of Directors declared the regular quarterly dividend of 15 cents per share, equivalent to the dividends declared in the first three quarters. The total dividend for the year was 60 cents.

On behalf of the Board of Directors we wish to extend our gratitude to our shareholders, customers and employees for their continued support and dedication during a year of positive transition for the Corporation.



F. H. Kissner  
Chairman



F. R. Raach  
President



# Consolidated Balance Sheets

December 31, 1971 and 1970

Assets	1971	1970
<b>Current Assets:</b>		
Cash .....	\$ 4,666,330	\$ 5,415,113
Temporary cash investments, at cost, which approximates market ..	<u>12,099,826</u>	<u>4,682,500</u>
Accounts receivable, less allowances of \$957,000 in 1971 and \$904,000 in 1970 for doubtful accounts .....	<u>27,511,133</u>	<u>23,657,907</u>
Inventories, at the lower of cost (determined on the first-in, first-out basis) or market:		
Finished goods .....	19,253,226	17,384,906
Work in process .....	17,855,534	15,764,341
Raw materials and supplies .....	<u>55,040,670</u>	<u>49,027,504</u>
Prepaid expenses .....	<u>580,936</u>	<u>616,895</u>
Total current assets .....	<u>99,898,895</u>	<u>83,399,919</u>
 <b>Plant and Equipment, at cost:</b>		
Land .....	3,815,829	3,817,377
Buildings .....	38,561,624	37,071,506
Machinery and equipment .....	<u>84,193,009</u>	<u>81,950,362</u>
	<u>126,570,462</u>	<u>122,839,245</u>
Less—Accumulated depreciation .....	<u>61,915,949</u>	<u>55,218,994</u>
	<u>64,654,513</u>	<u>67,620,251</u>
 <b>Investments and Other Assets</b> .....	<u>5,238,044</u>	<u>5,866,651</u>
 <b>Intangibles (Note 1)</b> .....	<u>7,902,987</u>	<u>7,913,860</u>
	<u>\$177,694,439</u>	<u>\$164,800,681</u>

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.



<b>Liabilities and Stockholders' Equity</b>	<b>1971</b>	<b>1970</b>
<b>Current Liabilities:</b>		
Current portion of long-term debt .....	\$ 3,252,533	\$ 2,902,690
Accounts payable .....	6,538,526	5,766,143
Accrued payrolls and employee benefits .....	8,958,810	7,670,833
Accrued Federal and foreign income taxes .....	1,656,554	1,488,083
Other accrued liabilities .....	5,286,198	4,594,654
Total current liabilities .....	<u>25,692,621</u>	<u>22,422,403</u>
<b>Deferred Federal Income Taxes (Note 3) .....</b>	<u>1,926,225</u>	<u>1,587,893</u>
<b>Long-term Debt (Note 4) .....</b>	<u>65,028,610</u>	<u>58,940,143</u>
<b>Stockholders' Equity (Notes 1, 5, 6 and 7):</b>		
\$1.10 Cumulative Preferred Stock, no par value, authorized 472,316 shares; held in treasury, 40,933 shares at December 31, 1971 and 42,073 shares at December 31, 1970; outstanding, 300,487 shares at December 31, 1971 and 308,575 shares at December 31, 1970, stated at \$20.00 per share .....	6,009,740	6,171,500
\$1.70 Cumulative Convertible Preference Stock, no par value, authorized 1,422,587 shares; held in treasury, 14,200 shares at December 31, 1971 and at December 31, 1970; outstanding, 851,206 shares at December 31, 1971 and 852,453 shares at December 31, 1970, stated at \$7.50 per share .....	6,384,045	6,393,398
Additional Preferred Stock, no par value, authorized 1,000,000 shares .....	—	—
Common Stock, \$3.75 par value, authorized 12,000,000 shares; held in treasury, 317,852 shares at December 31, 1971 and 345,395 shares at December 31, 1970; outstanding, 2,863,453 shares at December 31, 1971 and 2,833,131 shares at December 31, 1970 .....	10,737,949	10,624,241
Capital surplus .....	2,105,634	2,049,195
Retained earnings (Note 4) .....	<u>59,809,615</u>	<u>56,611,908</u>
Total stockholders' equity .....	<u>85,046,983</u>	<u>81,850,242</u>
	<u>\$177,694,439</u>	<u>\$164,800,681</u>



**Consolidated Statements of Income**  
**Consolidated Statements of Retained Earnings**  
For the Years Ended December 31, 1971 and 1970

<b>Income</b>	<b>1971</b>	<b>1970</b>
<b>Net Sales</b> .....	\$217,554,424	\$205,604,225
<b>Cost of sales</b> .....	171,044,091	159,993,405
<b>Gross Profit</b> .....	46,510,333	45,610,820
<b>Selling, general and administrative expenses</b> .....	29,792,556	30,312,432
<b>Income from Operations</b> .....	16,717,777	15,298,388
<b>Interest expense</b> .....	4,551,682	4,370,406
<b>Other (income), net</b> .....	(663,666)	(281,437)
	3,888,016	4,088,969
<b>Income before Federal and Foreign Income Taxes</b> .....	12,829,761	11,209,419
<b>Federal and foreign income taxes (Note 3)</b> .....	6,000,000	5,200,000
<b>Net Income</b> .....	\$ 6,829,761	\$ 6,009,419
<b>Per share of Common Stock (Note 2):</b>		
<b>Primary earnings</b> .....	\$1.76	\$1.47
<b>Diluted earnings</b> .....	\$1.46	\$1.30

<b>Retained Earnings</b>	<b>1971</b>	<b>1970</b>
<b>Balance, beginning of year</b> .....	\$ 56,611,908	\$ 55,749,186
<b>Net income</b> .....	6,829,761	6,009,419
	63,441,669	61,758,605
<b>Less:</b>		
<b>Cash dividends:</b>		
<b>Preference and Preferred Stock</b> .....	1,782,958	1,802,117
<b>Common Stock (\$.60 per share in 1971 and</b>		
<b>\$.90 per share in 1970)</b> .....	1,709,192	2,554,734
<b>Paid by a pooled company prior to pooling of interests</b> .....	—	11,160
<b>Par value of Common Stock issued in</b>		
<b>connection with a prior pooling of interests (Note 6)</b> .....	103,286	—
<b>Cost in excess of par and stated value of stock acquired for</b>		
<b>the treasury</b> .....	—	777,619
<b>Cost of Common Stock warrants acquired</b> .....	36,618	1,067
	3,632,054	5,146,697
<b>Balance, end of year (Note 4)</b> .....	\$ 59,809,615	\$ 56,611,908

The accompanying notes to consolidated financial statements are an integral part of these statements.



# Consolidated Statements of Changes in Financial Position

Wallace-Murray Corporation and Subsidiaries

## Consolidated Statements of Capital Surplus

For the Years Ended December 31, 1971 and 1970

### Changes in Financial Position

1971

1970

#### Source of Funds:

Net income	\$ 6,829,761	\$ 6,009,419
Non-cash charges:		
Depreciation	7,467,205	7,046,188
Other non-cash items	828,332	439,043
Total from operations	15,125,298	13,494,650
Proceeds from long-term debt	10,000,000	5,094,850
Other, net	248,150	—
	<u>25,373,448</u>	<u>18,589,500</u>

#### Application of Funds:

Additions to properties	4,597,576	10,668,770
Dividends paid	3,492,150	4,368,011
Purchase of treasury stock and Common Stock warrants	143,431	1,159,877
Payments of long-term debt	3,911,533	472,780
Other, net	—	731,743
	<u>12,144,690</u>	<u>17,401,181</u>
<b>Increase in Working Capital</b>	<u>\$ 13,228,758</u>	<u>\$ 1,188,319</u>

#### Changes in Working Capital:

##### Increase (Decrease) in Current Assets:

Cash and temporary cash investments	\$ 6,668,543	\$ 3,583,278
Receivables	3,853,226	(5,605,624)
Inventories	6,013,166	(5,110,492)
Prepaid expenses	(35,959)	(254,238)
	<u>16,498,976</u>	<u>(7,387,076)</u>

##### Increase (Decrease) in Current Liabilities:

Current installments of long-term liabilities	349,843	(3,691,212)
Accounts payable and accrued liabilities	2,751,904	(3,672,390)
Income taxes	168,471	(1,211,793)
	<u>3,270,218</u>	<u>(8,575,395)</u>
<b>Increase in Working Capital</b>	<u>\$ 13,228,758</u>	<u>\$ 1,188,319</u>

### Capital Surplus

1971

1970

Balance, beginning of year	\$ 2,049,195	\$ 1,920,218
Conversion of preference stock and exercise of warrants and stock options	2,891	64,833
Purchase and retirement of preferred stock	53,548	64,144
Balance, end of year	<u>\$ 2,105,634</u>	<u>\$ 2,049,195</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.



# Notes to Consolidated Financial Statements

December 31, 1971

## Notes

**1. Principles of Consolidation:** The consolidated financial statements include the accounts of the Company and all subsidiaries. All significant intercompany transactions have been eliminated. Accounts of foreign subsidiaries have been translated at appropriate exchange rates. Intangibles, which represent the cost of investments in businesses acquired prior to November 1, 1970 in excess of amounts assigned to tangible assets, are not being amortized. In the opinion of management, there has been no diminution in value.

**2. Earnings Per Share:** Primary earnings per common share were computed by dividing net income, after deducting all preferred and preference dividends, by the average number of common shares outstanding during the periods.

Diluted earnings per share were computed after deducting only \$1.10 Cumulative Preferred dividends from net income and assuming full conversion of the \$1.70 Cumulative Convertible Preference Stock, conversion of the Convertible Subordinated Debentures and exercise of Common Stock warrants.

The exercise of outstanding stock options has not been reflected in the above computations as the effect thereon is not significant.

**3. Income Taxes:** The Company computes depreciation principally on a straight-line method for financial reporting purposes and uses accelerated methods for tax purposes. The use of accelerated depreciation for tax purposes results in tax deferrals which are included in deferred income taxes. The net tax deferrals included in the provision for income taxes amounted to \$338,332 in 1971 and \$139,043 in 1970.

The income tax provision includes Canadian taxes of \$1,064,000 in 1971 and \$802,000 in 1970. Investment tax credits of the Company are not material in amount.

**4. Long-term Debt:** Long-term Debt at December 31 was as follows:

	1971	1970
6½ % senior notes, due 1973-1988 . . . . .	\$35,600,000	\$37,800,000
6⅞ % subordinated notes, due 1973-1988 . . . . .	11,010,000	11,670,000
6½ % convertible subordinated debentures, due 1979-1991 . . . . .	10,000,000	—
6%-8% lease commitments, due 1973-1989 . . . . .	6,950,000	7,260,000
6½ % subordinated debentures, due 1973-1981 . . . . .	1,310,000	1,969,000
6%-7% mortgage notes, due 1973-1983 . . . . .	158,610	241,143
	<u>\$65,028,610</u>	<u>\$58,940,143</u>

In May, 1971 the Company sold in a public offering, \$10,000,000 of 6½ % Convertible Subordinated Debentures due May 1, 1991. The debentures are convertible into Common Stock at \$22.00 per share and require annual sinking fund payments of \$625,000 commencing 1979.

Under the most restrictive provisions of the long-term debt agreements retained earnings of \$16,183,279 were unrestricted as to the payment of cash dividends or repurchase of stock as of December 31, 1971. The agreements and the Company's Certificate of Incorporation also contain working capital, debt and various other restrictions.

**5. Preferred and Preference Stock:** In the payment of both dividends and any preferential liquidation, the \$1.70 Cumulative Convertible Preference Stock will share ratably with the \$1.10 Cumulative Preferred Stock. In the event of liquidation or dissolution, the \$1.70 Preference Stock will also be entitled to share ratably with the Common Stock on a share-for-share basis in the assets after payment of all preferential distributions if the liquidation is voluntary (subject to right of redemption) or, if the liquidation is involuntary, to share ratably with the Common Stock up to a limit of \$30.00 per share (in addition to a \$7.50 per share preferential distribution). Had involuntary liquidation taken place as of December 31, 1971, and based upon the accompanying balance sheet as of that date, the holders of the \$1.70 Cumulative Convertible Preference Stock would have been entitled to receive an amount of \$23,029,000, which amount includes the \$6,384,045 stated value of such stock. Each share of \$1.70 Cumulative Convertible Preference Stock is convertible into 1.7 shares of Common Stock. Had all such shares been so converted as of December 31, 1971, their total equity based upon the accompanying balance sheet would have been \$26,533,000.

The \$1.10 Preferred Stock is redeemable at prices (plus accrued dividends) declining from \$20.57 per share on December 31, 1971 to \$20.00 per share on July 2, 1979 and thereafter. Each year the Company is required to redeem and cancel 2.5 % of the shares issued as at June 30, 1969. During 1971, 8,088 shares were acquired and 9,228 shares were cancelled.

The \$1.70 Preference Stock is redeemable as a whole or in part on and after October 1, 1971 at prices (plus accrued dividends) declining from \$36.40 per share to \$35.00 per share on October 1, 1975 and thereafter.

**6. Common Stock:** A total of 2,093,453 shares of Common Stock were reserved at December 31, 1971 for future issuance as follows:



Conversion of \$1.70 Cumulative Convertible Preference Stock (each share convertible into 1.7 shares of Common)	1,447,050
Conversion of 6½ % Convertible Subordinated Debentures at the rate of 45.455 shares for each \$1,000 principal amount	454,545
Exercise of Common Stock options	184,850
Exercise of Common Stock warrants	7,008
	<u>2,093,453</u>

During 1971, the Company issued 2,119 Common shares on the conversion of 1,247 shares of \$1.70 Cumulative Convertible Preference Stock, 660 Common shares on the exercise of warrants and 27,543 Common shares to former stockholders of a pooled company.

**7. Stock Options:** Following is a summary of changes during 1971 in outstanding options to purchase Common Stock:

	Shares Subject to Option	Option Price	
		Per Share	Total
Beginning	167,600	\$14.50 to \$37.00	\$4,830,719
Granted	108,850	\$18.375 to \$23.3125	2,177,703
Exercised	—	—	—
Terminated	125,850	\$20.00 to \$37.00	3,987,656
Ending	<u>150,600</u>	\$14.50 to \$23.3125	<u>\$3,020,766</u>

Options to purchase 29,750 shares were exercisable at December 31, 1971, and the remaining outstanding options become exercisable during 1972 to 1974. In addition, 34,250 shares of Common Stock were reserved as of December 31, 1971 for grant of options under Qualified Stock Option Plans for officers and other key employees. Options under these Plans are exercisable during the five-year period subsequent to date of grant, at market prices on the dates such options are granted.

**8. Pensions:** The Company and its subsidiaries have a number of pension plans covering substantially all of their employees. The total pension expense, which includes, as to certain of the plans, amortization of prior service cost over periods ranging from 11 to 40 years, was approximately \$3,950,000 in 1971 and \$3,255,000 in 1970. The Company's policy is to fund pension cost accrued. The actuarially computed value of vested benefits at December 31, 1971 with respect to certain of the plans, exceeded the total of the applicable pension funds by approximately \$3,700,000.

**9. Pending Litigation:** On October 6, 1966 the Government filed Sherman Act indictments and companion civil antitrust actions against fifteen plumbing fixture manufacturers, including the Company. The action initiated by the indictment was terminated as to the Company and eleven concerns by

the entry of *nolo contendere* pleas, and the remaining three concerns were convicted in May, 1969. The Government civil actions were settled in May, 1971. Numerous private civil treble damage actions with respect to the same matter are pending; in most, the complaints do not specify the amount of damages sought. Class settlements relating to the claims of (i) wholesalers, distributors, retailers and others who purchased plumbing fixtures for resale and (ii) public entities in thirty-five states, other than class members who excluded themselves from the settlements, have become final and the Company has paid the judgments entered in connection therewith. An additional class settlement relating to claims of plumbing, mechanical and general contractors has been approved by the United States District Court, although the time for all appeals has not expired. In addition, settlements intended to cover most of the remaining claims are being processed in court, but are subject to a number of contingencies, including final court approval. The Company is defending all actions not covered by the above settlements. In the opinion of management and counsel, these actions will not have a material adverse effect on the Company's business, operations or financial position. No provisions have been made in the financial statements in connection therewith.

### Auditors' Report

To the Stockholders and Board of Directors,  
Wallace-Murray Corporation:

We have examined the consolidated balance sheets of Wallace-Murray Corporation (a Delaware corporation) and subsidiaries as of December 31, 1971 and 1970, and the related consolidated statements of income, capital surplus, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Wallace-Murray Corporation and subsidiaries as of December 31, 1971 and 1970, and the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

New York, N.Y.,  
February 1, 1972.



## Nine-Year Summary

	1971	1970
<b>Operations</b>		
Net Sales	\$217,554,424	\$205,604,225
Income Before Income Taxes	12,829,761	11,209,419
Federal and Foreign Income Taxes	6,000,000	5,200,000
Net Income	6,829,761	6,009,419
Depreciation	7,467,205	7,046,188
Funds from Operations	15,125,298	13,494,650
Interest Expense	4,551,682	4,370,406
<b>Financial Position</b>		
Current Assets	\$ 99,898,895	\$ 83,399,919
Current Liabilities	25,692,621	22,422,403
Working Capital	74,206,274	60,977,516
Current Ratio	3.89	3.72
Long-Term Debt	65,028,610	58,940,143
Stockholders' Equity	85,046,983	81,850,242
Debt-Equity Ratio	.76	.72
<b>Comparative Statistics</b>		
Number of Common Stockholders	3,996	3,811
Number of Preferred Stockholders	2,821	2,985
Average Number of Common Shares Outstanding	2,862,264	2,871,319
Primary Earnings Per Common Share	\$1.76	\$1.47
Average Number of Shares Outstanding, Assuming Full Dilution	4,597,913	4,343,874
Diluted Earnings Per Share	\$1.46	\$1.30
Dividends Per Share of Common Stock	\$ .60	\$ .90

All years have been restated to reflect companies acquired in poolings of interests transactions.

Diluted earnings per share assumes full conversion of \$1.70 Cumulative Convertible Preference Stock, the exercise of Common Stock warrants and conversion of the Convertible Subordinated Debentures which were issued in May, 1971.

Simonds Saw and Steel Company was acquired by purchase in late December, 1965. Accordingly, the above Summary includes the Simonds balance sheet data at year-end 1965 and operating results for subsequent years.



1969	1968	1967	1966	1965	1964	1963
\$241,289,566	\$220,650,175	\$204,218,778	\$205,402,613	\$108,620,685	\$81,887,626	\$60,761,354
24,288,035	23,059,320	20,683,882	22,995,049	13,512,182	9,040,520	5,360,364
12,425,000	11,722,913	9,869,783	11,226,142	6,192,225	4,329,347	1,830,091
11,863,035	11,336,407	10,814,099	11,768,907	7,319,957	4,711,173	3,530,273
6,694,500	6,389,134	6,095,121	5,852,308	2,793,677	2,251,285	2,004,222
19,297,620	17,883,441	17,022,878	17,724,188	10,407,726	7,435,113	5,611,982
4,144,156	3,856,634	4,234,132	3,993,024	1,041,158	889,905	403,319
\$ 90,786,995	\$ 82,942,144	\$ 81,579,998	\$ 84,793,030	\$ 77,184,041	\$48,671,951	\$48,562,912
30,997,798	26,972,458	26,886,164	24,466,511	24,745,081	12,773,626	6,401,309
59,789,197	55,969,686	54,693,834	60,326,519	52,438,960	35,898,325	42,161,603
2.93	3.08	3.03	3.47	3.12	3.81	7.59
54,318,073	54,680,497	57,447,020	64,138,229	64,401,059	17,489,424	6,495,507
81,294,470	73,890,552	65,995,154	63,696,462	54,138,217	49,695,685	56,004,160
.67	.74	.87	1.01	1.19	.35	.12
3,580	3,608	3,759	4,097	3,687	3,610	3,667
3,021	3,099	3,258	3,405	3,191	700	—
2,878,229	2,848,158	2,819,926	2,812,456	2,742,774	2,577,188	2,800,530
\$3.48	\$3.32	\$3.16	\$3.52	\$2.01	\$1.25	\$ .73
4,378,047	4,378,644	4,420,347	4,537,864	4,576,228	4,318,222	4,506,029
\$2.63	\$2.51	\$2.36	\$2.52	\$1.55	\$1.09	\$ .78
\$ .90	\$ .75	\$ .70	\$ .675	\$ .725	\$ .525	—



# Wallace-Murray Corporation

Executive Office, 299 Park Avenue, New York, NY 10017

## Domestic Operating Divisions

### Building Products

#### Eljer Plumbingware

J. V. Cannon Jr., Vice President-General Manager  
DIVISION OFFICE: Pittsburgh, Pa.  
PLANTS: Ford City and Scranton, Pa.; Marysville, Salem and Springfield, O.; Bay St. Louis, and Tupelo, Miss.  
PRODUCTS: Plumbing systems and fixtures including enameled cast iron and formed steel products, vitreous china, fiberglass, brass fittings and steel stampings

#### Lawton-Scharf

Arnold Kohler, Vice President-General Manager  
DIVISION OFFICE: St. Petersburg, Fla.  
DISTRIBUTING BRANCHES: St. Petersburg, Fla.; Americus, Ga.; Elkhart, Ind.; Hutchinson, Kans.; Tupelo, Miss.; Charlotte, N. C.; Scranton, Pa.; and Waco, Tex.  
PRODUCTS: Plumbing supplies and building components for the mobile home industry

#### William Wallace

H. R. Falkner, General Manager  
DIVISION OFFICE: Belmont, Calif.  
PLANTS: Belmont, Calif. and Logan, O.  
PRODUCTS: Gas vent systems, chimneys and sheet metal products

#### Dry

Hal S. Dry, Vice President-General Manager  
DIVISION OFFICE: Winters, Tex.  
PLANT: Winters, Tex.  
PRODUCTS: Registers, grills and diffusers for heating and air-conditioning

### Cutting Tools

#### Simonds Saw

W. C. Haskins, Vice President-General Manager  
DIVISION OFFICE: Fitchburg, Mass.  
PLANT: Fitchburg, Mass.  
PRODUCTS: Circular, band and hack saws; files; machine knives; circular cutters and steel specialties

#### Simonds Abrasive

B. A. Bernt, Vice President-General Manager  
DIVISION OFFICE: Philadelphia, Pa.  
PLANTS: Philadelphia, Pa.; Salem, Ill.; El Monte, Calif.; and Milan, Italy  
PRODUCTS: Grinding wheels and abrasive grains

#### Heller-Atrax

Karl Philippi, Vice President-General Manager  
DIVISION OFFICE: Newcomerstown, O.  
PLANTS: Newington, Conn.; Claremont, N. H.; and Newcomerstown, O.  
PRODUCTS: Precision solid carbide tools, burs, files, hammers and special tools

### Power Components

#### Schwitzer

R. J. Niehaus, Vice President-General Manager  
DIVISION OFFICE: Indianapolis, Ind.  
PLANTS: Indianapolis and Elwood, Ind.; Rolla, Mo.; Stratford, Ontario; and Sao Paulo, Brazil  
PRODUCTS: Automotive and Diesel engine components including turbochargers, cooling fans, vibration dampers and fan drives

#### Fayette Tubular Products

R. E. Whiting, Vice President-General Manager  
DIVISION OFFICE: Lathrup Village, Mich.  
PLANT: Fayette, O.  
PRODUCTS: Fluid power devices for automotive air-conditioning and hydraulic components for motor vehicles

### Custom Metals

#### Illinois Gear

R. L. Durgin, Vice President-General Manager  
DIVISION OFFICE: Chicago, Ill.  
PLANT: Chicago, Ill.  
PRODUCTS: Metallic and non-metallic custom-made industrial gears

#### Simonds Steel

C. H. Emery, Vice President-General Manager  
DIVISION OFFICE: Lockport, N. Y.  
PLANT: Lockport, N. Y.  
PRODUCTS: Custom-made high quality alloy, tool and specialty steels

## Canadian Operations

#### Simonds Canada Saw

J. C. Orr, Vice President-General Manager  
DIVISION OFFICE: Granby, Quebec  
PLANTS: Granby and Arvida, Quebec; Brockville, Ontario; Vancouver, B. C.  
PRODUCTS: Saws, machine knives, abrasive and diamond wheels and abrasive crude

#### Selkirk-Metalbestos

R. J. Loveless, Vice President-General Manager  
DIVISION OFFICE: Brockville, Ontario  
PLANTS: Brockville and Hamilton, Ontario; Montreal, Quebec; and Barnstaple, England  
PRODUCTS: Gas vent systems, chimney systems, industrial chimneys and fireplaces



## Directors and Officers

Wallace-Murray Corporation and Subsidiaries

---

### Directors

John D. Ames, Jr.  
Charles H. Dyson\*†  
Franklin H. Kissner\*\*  
James A. McLean  
Robert E. Palmer  
Fred R. Raach\*  
James O. Wright

\*Members of Executive Committee

†Chairman of the Finance Committee

★Chairman of the Board

---

### Officers

Fred R. Raach  
President and Chief Executive Officer  
Charles V. Myers  
Group Vice President  
Raymond F. Richard  
Group Vice President  
Arthur J. Andersen  
Vice President and Corporate Secretary  
Benjamin G. Bowden  
Vice President—Research and Development  
Richard D. Castle  
Vice President—Finance  
John H. Long, Jr.  
Vice President—Industrial Relations  
J. Robert Aydelotte  
Controller  
Fred W. Peters  
Treasurer  
Robert A. Sherman  
General Counsel

---

### Transfer and Disbursing Agent

First National City Bank  
111 Wall Street, New York, N. Y. 10015  
Common Stock—  
\$1.70 Cumulative Convertible  
Preference Stock and Warrants—  
\$1.10 Cumulative Preferred Stock—  
6½ % Convertible Debentures—

### Registrars

Bankers Trust Company  
16 Wall Street, New York, N. Y. 10015  
\$1.70 Cumulative Convertible  
Preference Stock  
Manufacturers Hanover Trust Company  
4 New York Plaza, New York, N. Y. 10015  
Common Stock

### Auditors

Arthur Andersen & Co.  
1345 Ave. of the Americas, New York, N. Y. 10019



